

COMMONWEALTH OF MASSACHUSETTS
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

Investigation into the Provision of Default Service)	
)	D.T.E. 02-40

INITIAL COMMENTS OF THE
NORTHEAST ENERGY EFFICIENCY COUNCIL

Introduction

The Northeast Energy Efficiency Council (NEEC) is pleased to present the following comments in response to the DTE's Investigation into the provision of Default Service issued by the Department of Telecommunications and Energy ("Department" or "DTE") as part of its D.T.E. 02-40 (June 21, 2002).

NEEC is a business association of the energy efficiency industry. NEEC's member companies include some of the world's leading energy service companies, product suppliers, lighting manufacturers and electrical firms. They sell products and services here and in the national and international marketplace.

Many of the NEEC members provide energy consumers with comprehensive services to reduce their electric usage (as well as other energy use) that includes installation of efficiency technology, energy management, on-site generation, management services and energy procurement assistance. These firms are directly effected by the structure of electricity markets and the ability of third parties to assist customers with controlling and managing their electricity costs. For this reason, the

structure of default service in the Commonwealth will have a significant impact on the type and level of the retail competitive electricity markets. This in turn will have an impact on the ability of energy service companies to serve their customers.

NEEC is not going to provide extensive input into the mechanics of structuring default service. We do, however, want to comment on the broader question of retail vs. wholesale electricity markets and the relative merits of proposals that would facilitate both or only wholesale competition.

Status of retail electricity markets and the delivery of customer value

NEEC believes that the current structure of Default Service combined with the structure of the Standard Offer Service effectively blocks the introduction of retail competition into the electricity market for small and medium size customers. The current system essentially provides for the pass through of a wholesale auction price of electricity with no value added components or options. This is not what was envisioned or proposed in the Electric Industry Restructuring Act of 1998.

There are some parties in fact who may feel that retail competition for small and medium size consumers is not necessary or valuable and continuing a system of utility distribution company contracting and delivering wholesale power prices is a viable long term option. NEEC does not believe that a system that allows for competition in the wholesale market alone and not in the retail market will not provide the best long term value that is needed for electricity consumers of all sizes. We believe that retail competition, if properly implemented, will provide the best long term option when combined with a well managed wholesale competitive market, locational marginal pricing and other key features at the wholesale and grid management level.

Benefits of Retail Competition

The reason for NEEC's position is several fold.

1. Retail competition can provide the best opportunity for lower long term cost of energy through value added services such as energy efficiency, energy management or on-site generation provided by retail suppliers looking for strategies to increase their total value of services provided to a customer. These services may not provide the lowest price per unit of electricity but might result in the lowest overall cost to the consumer (ie the lowest energy bill). In fact, the lowest cost of energy is in the long run more significant and a better objective than the lowest unit price of electricity.
2. Retail competition can create a market for environmentally clean and renewable energy sources. In locations where retail choice has been introduced, a large percentage of consumers who have switched have selected a green power provider. Without retail competition, the environmental attributes of power are lost to lowest price.
3. Retail competition can also provide an opportunity to market and inform low income customers of rate discounts that are available through the Electric Restructuring Act. If retail competition requires a standard contract or at least some core standard language, this can include a prominent section on availability of low income discounts and how to apply for those discounts. The current mechanism relies on distribution company education and work by low income agencies and advocates. We believe that the mechanisms of retail competition can

create an educational platform to achieve higher participation rates in existing discount arrangements.

4. Retail Competition can provide market control over long term prices. The system of wholesale only competition is managed by distribution utilities what have little or no incentive to keep prices low. In fact the costs of managing the auction and transaction process may be a detriment to their business without adequate PBR systems to reward distribution utilities for good performance. The primary role of the distribution utility is to pass on the winning bid price. This is not a system that has any structural controls over pricing. It is outside of regulatory actions and it leaves the auction process to the potential influence of market power by large generators if there are too few participants at the wholesale level. Conversely a robust retail market would have retail energy suppliers who have a strong interest in controlling costs through bilateral contracts, hedge instruments and other mechanisms to maintain low wholesale prices. The market may provide the best control mechanism for itself.

Conclusion

NEEC respectfully requests that the Department adopt Default Service rules that facilitate the development of a true competitive retail market and not a pass through of wholesale prices. This will create the greatest long term value to the public and will be consistent with the original intent of the legislation.

Respectfully submitted,

Northeast Energy Efficiency Council

by _____

Stephen Cowell, CEO, Conservation Services Group and
President, NEEC
77 North Washington St.
Boston, MA 02114
617 227-6980
Steve.Cowell@CSGrp.com

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